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RUEHBS/USEU BRUSSELS
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C O N F I D E N T I A L SECTION 01 OF 03 TOKYO 001817

SIPDIS

STATE PASS USTR FOR AMB. SCHWAB/AUSTR CUTLER/DAUSTR BEEMAN
STATE PASS USDA FOR DEPUTY U/S TERPSTRA
USDA ALSO FOR FAS/OCRA - RIEMENSCHNEIDER
COMMERCE FOR 4410/ITA/MAC/OJ
TREASURY FOR IA - DOHNER, WINSHIP, POGGI
NSC FOR KTONG

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TAGS: [ECON](#) [ETRD](#) [EAGR](#) [PREL](#) [JA](#)
SUBJECT: TOKYO SCENESETTER FOR USTR SCHWAB

REF: TOKYO 1742

Classified By: Amb. J. Thomas Schieffer. Reason: 1.4 (b,d)

¶1. (C) Our economic engagement with Japan remains less than it should be given that Japan is our fourth largest trading partner with over USD 700 million in goods and services trade flowing each day between our two countries. However, while "trade disputes" may no longer be the first phrase that comes to American businesspeople's minds when they talk about Japan -- indeed the American Chamber of Commerce and others talk about achieving a free trade agreement -- there remain a number of stubborn bilateral trade issues. Japan should also be working more closely with us to build a prosperous East Asia that looks to sound market-based principles and policies in shaping globalization.

¶2. (C) Domestic Japanese conditions are the key factors shaping this situation. A period of consistent -- though tepid -- economic growth has eroded the sense among the Japanese public and industry of the need for structural change. The term "reform" has been discredited as opponents have succeeded in associating it with perceived growing inequalities in Japanese society. In addition, leadership in Tokyo on economic reform has withered as Prime Minister Fukuda and the ruling party, reflecting the cautious public mood, have slowed the pace of economic reform in a bid to shore up their support among constituencies whose dissatisfaction led to opposition victory in the election for the Upper House of the Diet a year ago.

¶3. (C) As a result, progress in pressing areas of interest in trade -- full opening of the Japanese market to U.S. beef, fulfillment of Japan's commitment to procure its agreed quota of rice in the international marketplace, progress in the WTO Doha negotiations, and securing a sound basis for Japan's capacity to contribute to global growth and prosperity

-- has stalled. Recent developments regarding North Korea have likely limited our ability to press the Fukuda Cabinet to take political risks in other areas. Prime Minister Fukuda has come under intense pressure from the media and his own political base for supporting the U.S. decision to take North Korea off the terrorist watch list without more progress in the highly emotional issue of past abductions of Japanese citizens by North Korean agents.

14. (C) Your July 10-11 visit following the G8 Summit is an opportunity to raise top bilateral, regional, and multilateral trade concerns at the senior-most levels of Japan's government, while also noting areas such as expanding intellectual property rights protection, where we have progressed. It will be absolutely necessary as well to highlight to the Japanese the serious downside risks if the GOJ allows government-to-government efforts aimed at enhancing the bilateral economic relationship to stagnate.

Beef

15. (C) There has been little improvement in market access for U.S. beef since July 2006. Despite ongoing high-level interventions, there have been no substantive negotiations that would lead Japan toward OIE-based import rules. The GOJ characterizes the U.S. position of seeking full OIE compliance as dogmatic and politically unrealistic. While the

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Japanese have never placed much stock in the U.S.-Korea discussions on beef, the GOJ is likely to point to Korea as an example of Japan's own domestic political constraints. In fact, there is little comparison. Japan's stance is emblematic of widespread bureaucratic conservatism and lack of leadership on food safety issues and is not related to market acceptance. All of the major supermarkets in Japan now carry U.S. beef as do thousands of restaurants. The limiting factor on U.S. beef sales is the availability of age-verified animals under the export verification program.

Minimum Access Rice

16. (C) As part of Japan's Uruguay Round commitments Japan has a "minimum market access" (MMA) quota for rice of 682,000 mt. In JFY2007 (April 2007-March 2008), Japan only purchased about 90% of its MMA commitment (64% of which was U.S. origin, approaching the level necessary to meet our bilateral understanding), claiming that high rice prices had drained their budget. The position of the Ministry of Agriculture, Forestry, and Fisheries (MAFF) is that Japan has made a good faith effort to fill the quota and that, due to the exceptional circumstances in the global rice market, it is appropriate to leave the remainder of the MMA quota unfilled. The USG position is that Japan should abide by its commitment, although the timing of the purchase may be flexible. The Ministry of Foreign Affairs has opposed MAFF, and the GOJ is gridlocked on the issue. We remain concerned, however, MAFF could win this bureaucratic fight following the G8 Summit to the detriment of the U.S.

17. (C) A separate but equally sensitive issue relates to calls for Japan to release its ample MMA rice stocks in order to put downward pressure on global rice prices. It is the USG's long-held position that MMA rice should not be diverted for uses other than Japanese domestic human consumption. However, the USG has told Japan that it considers the

current rice price crisis to be a unique situation and, in this specific instance, will not stand in the way of a limited release of MMA rice for humanitarian needs. After consultations with the United States, the GOJ stated it will release some MMA rice stocks for humanitarian needs, but to date there has been little action to follow up this declaration.

Doha

18. (C) A lack of political leadership -- and of positive pressure by domestic interest groups -- similarly keeps Japan from contributing as it should, given its economic size and its percentage of world trade, to the Doha Development Agenda (DDA) negotiations. Without firm direction from the Prime Minister -- and the political protection such guidance could provide -- no GOJ agency is in a position to compromise the interests of its particular constituency in order to secure a comprehensive deal in Geneva. Focused more on defending interests than on expanding benefits, the GOJ is unlikely to assume the active role in the negotiations we would expect from the world's second-largest economy. A clear statement of our expectations for the trade ministerial meetings the week of July 21 would set, at a minimum, a marker by which we can judge Japan's current capacity to be an effective partner in advancing the DDA.

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Regulatory Reform

19. (C) Japan needs to re-ignite regulatory reform to help its economy grow and be better positioned to face emerging global challenges. Nevertheless, our latest (seventh) round of regulatory reform talks shows the waning interest in reform seen in top political levels has provided cover for inaction by working-level GOJ officials, who have taken a conservative, do-as-little-as-possible approach. A clear indication of your personal engagement -- and disappointment -- with the regulatory reform process might spur your ministerial counterparts to review this year's meager results from the Regulatory Reform Initiative and to contemplate GOJ measures to move the process forward.

Areas of Cooperation

10. (C) While Japan's commitment to reform has lagged, there is an important body of working-level cooperation that is promising. The U.S. and Japanese efforts to advance the Anti-counterfeiting Trade Agreement, coordination on IPR issues in the G8 and APEC, and practical patent cooperation are positive. We have also usefully shared information and coordinated on emerging Chinese information security standards and in taking the EU to dispute settlement over coverage of the WTO Information Technology Agreement. We often differ with Japan over approach, even after extensive consultation, but we recognize that we share enough concerns, e.g., counterfeit goods and product safety, to make continued serious engagement important and worthwhile.

11. (C) Overall, these are frustrating times in our economic relations with Japan. Despite the substantial gains toward making Japan a more open, dynamic economy under former PM Koizumi, Koizumi's successors have lacked either the inclination or the political wherewithal to keep the reform agenda alive. Your visit, following a G8 Summit where PM Fukuda will

endeavor to exercise a global leadership role, has the potential to force some of Japan's leaders in economic policy to focus on the steps needed to consolidate that role. At this juncture, the message that "business as usual" is unsustainable needs to be voiced credibly and forcibly. Your visit gives us the chance to do just that.

SCHIEFFER